

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF THE PHELPS GAS COMPANY, INC.))	CASE NO. 90-078
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O R D E R

On March 30, 1990, Phelps Gas Company, Inc. ("Phelps") filed an application requesting authority to increase its gas rates by \$106,001 annually or 94 percent. Based upon the determination herein, operating revenue will increase by \$3,836 an increase of approximately 3 percent.

A settlement agreement was entered October 1, 1990 by Commission Staff and Phelps on most of the issues relating to expense adjustments, but did not resolve all of the issues.

A hearing was held on October 2 and 3, 1990. There are no intervenors.

Phelps is a public utility providing gas service to approximately 186 residential customers in Pike County, Kentucky. The owners and operators of Phelps also own and operate the Elzie Neeley Gas Company, Inc. ("Elzie Neeley") and Mike Little Gas Company, Inc. ("Mike Little"). Various operating expenses are shared by these companies and other businesses also under common

ownership. Therefore, these utilities are considered to be affiliated companies.

Test Period

Phelps proposed and the Commission accepted the 12 month period ending December 31, 1989 as the test period for determining the reasonableness of the proposed rates. In utilizing the historical test period, the Commission has given full consideration to known and measurable adjustments found reasonable.

Valuation

Reproduction Cost vs. Net Original Cost

Phelps proposed a net reproduction cost rate base of \$389,090. Staff proposed that the investment in utility assets be based on net original cost and determined that the test-year-end rate base was \$12,078. Phelps' net reproduction cost valuation was based on an independent appraisal and represents an asset valuation which is 3,222 percent above the net original cost rate base. The company stated that it was requesting this valuation methodology because of the essential nature of the pipeline system and the need for increased revenues. KRS 278.290 (1) states in part:

In fixing the value of any property under this subsection, the Commission shall give due consideration to the history and development of the utility and its property, original cost, cost of reproduction as a going concern, capital structure, and other elements of value recognized by the law of the land for rate-making purposes.

The Commission has given due consideration to these and other elements in valuing Phelps' property for the purpose of

determining the fair, just, and reasonable rates and has determined that the net original cost value should be used.

The Commission believes the net original cost valuation reflects the actual investment which has been made by the owners in the utility's assets. The reproduction cost appraisal inflates the rate base to reflect the cost of the system as if all of the assets were immediately replaced at today's costs. There is no indication that this system will need to be entirely replaced in the near future. More likely, the assets of this utility will be replaced over time and it will be allowed to recover its investment in those assets through depreciation. The reproduction cost valuation results in a valuation that has no economic substance but is rather a "paper" write-up of Phelps' assets. To allow Phelps to earn a return on the reproduction cost rate base would provide for a return on investment which has not been made and could result in rates that are excessive in relation to the actual investment made by the owners of the utility. Furthermore, the net original cost has been used consistently for both large and small gas utilities regulated by this Commission, and is widely accepted by a majority of the regulatory commissions in the country.

Based on the findings herein, the Commission has determined the net original cost rate base to be \$12,146. The Commission derived this amount by using net original cost and revising it to reflect adjustments included in the settlement agreement and the provisions for working capital based on the allowable operating expenses.

Capitalization

The Commission has determined that as of the end of the test period, Phelps' total capitalization was a negative \$22,402. This total consisted of \$65,000 in demand notes, of which \$40,000 has been outstanding to an affiliated entity since at least 1984. The remaining \$25,000 in debt was incurred to pay for past-due gas purchases. The balance of the capitalization consists of a negative equity of \$87,402.

Revenue and Expenses

Proposed Settlement

The Commission has reviewed the proposed settlement entered into by Phelps and Staff resolving 18 of the issues presented in this proceeding. The proposed settlement is attached hereto, marked Appendix A. The Commission finds that the settlement reflects a reasonable compromise of the positions of the parties. The proposed settlement is supported by the evidence of record. The proposed settlement is in accordance with the law. The Commission will, therefore, accept the settlement for rate-making purposes herein. The provisions and terms of the proposed settlement are adopted herein as the findings of the Commission. The remaining revenue and expense issues are discussed in the following sections.

Revenue From Sales

The Commission accepts Phelps' proposed test-year sales revenue in the amount of \$111,733 based on sales of 17,040 Mcf. Adjusting for the most recent purchased gas adjustment in Case No.

9911-I¹ results in normalized gas revenues of \$104,685.

Late Payment Penalties and Service Charges

In its application, Phelps proposed an adjustment to decrease its revenues from late-payment penalties and service charges from \$2,224 to \$2,173 based on an average of the last 3 years of late payment penalties service charges. Staff recommended denying the request because during its field review Staff discovered that errors had been made on the adjusted books of Phelps. Staff recommended using actual amounts from Phelps' monthly recap. Phelps amended its request in its comments to the Staff Report, then again at the hearing. These errors appear to be the result of a lack of proper internal control procedures and Phelps should establish procedures to reconcile cash deposits to revenues.

Subsequent to the hearing, Phelps provided a revised monthly recap which showed \$720 in service charge revenues. Of this amount, \$400 was for customer deposits which should have been recorded as a liability. The remaining \$320 was for actual other service charge revenues. Apart from the service charge revenues, an additional \$1,254 was shown for revenues from late payment penalties. In addition, Phelps provided copies of the deposit cards substantiating its revisions.

The Commission finds that the actual level of late payment penalties as revised by Phelps resulting in late payment penalties and service charge revenues of \$1,574 is a reasonable adjustment.

¹ Case No. 9911-I, The Notice of Purchased Gas Adjustment of Phelps Gas Company, Inc., Order dated October 3, 1990.

Revenue Summary

Gas Sales	\$104,685
Late Payment Penalties and	
Service Charges	<u>1,574</u>
TOTAL OPERATING REVENUES	<u>\$106,259</u>

Natural Gas Purchases

During the test period, Phelps reported gas purchases of 18,496 Mcf and gas sales of 17,040 Mcf. This represents a line loss of approximately 8 percent. It is the policy of the Commission to allow actual line loss up to a maximum of 5 percent for rate-making purposes. The Commission finds that Phelps' line loss should be limited to 5 percent in this proceeding.

Phelps has proposed an adjustment to purchases, sales, and number of customers due to projections of a declining customer base. Phelps based its projection on losses of customers in the past four years. The information provided does not dictate a clearcut trend. The Commission does not find sufficient evidence in this filing to deviate from the use of test year purchases, sales and number of customers.

The natural gas purchases are adjusted to 5 percent line loss as follows:

$$\text{Test year sales } \frac{17,040}{.95} \text{ Mcf} = 17,937 \text{ Mcf allowable purchases}$$

The cost of purchases is then computed using the cost of gas from Case No. 9911-I. This adjustment yields a total cost of \$59,244. Hence, the Commission finds that the adjusted level of

natural gas purchases should be \$59,244, or a decrease from test-year purchases as adjusted by Case No. 9911-I of \$7,843.

Distribution Expense.

Phelps reported test-year actual distribution expense of \$110. Phelps proposed an adjustment to increase this expense by \$1,090 for an anticipated increase in contract labor costs. During the hearing it was disclosed that the proposed increase in this account was based on part-time salaries that were actually incurred and included in wages and salaries in the test year, but excluded from the wages and salaries contained in the calculation of Phelps' pro forma adjustment.

The Commission finds that under the operating circumstances of Phelps, the use of part-time employees is necessary and will occur on an ongoing basis. Therefore, the Commission has accepted the proposed increase which results in total adjusted distribution expense of \$1,200.

Administrative and General Salaries.

Phelps reported a test-year expense of \$12,000 for the manager's salary and proposed to increase this charge by 5 percent to a total of \$12,600. The Staff proposed to reduce the manager's salary to \$6,000 based on the fact that for approximately one half of the test year, the company had no full-time manager and has not taken any steps toward hiring a new manager. Since the death of the owner, Mike Little, on June 7, 1989, the operations of Phelps have been managed by a son-in-law, Mr. Daniel Greer. Mr. Greer has provided management of the affiliated companies of Mike Little while under full-time

employment at Ashland Oil Company. The record reflects that no attempt has been made to account for the time required by Mr. Greer to manage these companies; however, the time involved has been considerably less than full-time. The operations of the gas companies appear to have suffered no declines in service as a result of the current, part-time management arrangement.

The Commission finds that a level of \$6,000 is reasonable since the company has not demonstrated that a full time manager is being sought or needed. The Commission has determined from reviewing these cases that the former owner/manager was responsible for managing the affairs of two cable television businesses which are also owned by the owners of the affiliated utilities and that this arrangement has continued under new management. The cable companies, which are jointly operated by the owners of the gas utilities, should also pay a reasonable amount toward the manager's salary. The Commission has determined that the total manager's salary for the three affiliated utilities should be \$21,000. The Commission urges management to contain this cost to the approved level unless the circumstances as presented change considerably.

Outside Services.

Phelps proposed to increase Outside Services Expense by \$10,535 to reflect a \$39 increase in engineering costs, a \$2,520 charge for the appraisals performed by Marshall and Stevens, Inc., and a \$7,976 increase in legal and accounting fees which included an average of the past three years legal fees plus \$7,500 for rate case expense.

Phelps and Staff reached settlement on the engineering fees as well as the recurring portion of the legal fees. The remaining expenses in this category include the cost of the appraisals performed on and for the utility and a reasonable level of expense to cover the cost of this rate case proceeding.

A. Appraisal Cost

Phelps proposed to include a \$2,520 increase to recognize an allocation of two appraisals performed by Marshall and Stevens, Inc. The total cost of the appraisals was estimated to be \$10,500 and included one appraisal for rate-making purposes and one for estate tax purposes. Phelps requested to recover the total cost of both of the appraisals as the company felt both appraisals were useful to the company.

Staff recommended that the Commission disallow the entire expense on the grounds that the company could not split the costs between the appraisal related to the rate case and the appraisal related to the estate tax. During the hearing, Phelps provided information which showed that \$4,500 was for a machinery and equipment appraisal, which was used in arriving at the reproduction cost valuation; and, \$5,000 was for an income approach appraisal which was used for the estate tax valuation. The \$500 for project management, \$500 for office production costs, and \$2,600 for travel expenses related to both appraisals.

The Commission finds that it is reasonable to allow only the portion of the cost associated with the appraisal used in presenting the reproduction cost rate base. The second appraisal, which was performed for estate tax purposes, is a cost which

should be borne by those individuals who are beneficiaries of the estate, and does not constitute a reasonable cost of providing utility service. Furthermore, the expenses which relate to both appraisals should be assigned on an equal basis to the utility and the estate to provide a sharing of these costs between the ratepayers and the owners. The Commission has determined that the total appraisal cost that should be included for rate-making purposes is \$6,300, which includes the cost of \$4,500 for the machinery and equipment appraisal, plus one half of the cost of project management, office production and travel.

The Commission has determined that a 3 year amortization of the allowable appraisal cost would best reflect the expected benefit period of the appraisal. This amortization period corresponds to the typical period between utility rate cases and amortizes this expense over the period which receives the benefit. This amortization results in a total annual charge of \$2,100 which is then allocated to the three regulated utilities on a percentage of total customer basis. The Commission has accepted the percentage amounts quoted by both Staff and Phelps which reflects a 24 percent allocation of common cost to Phelps. This percentage results in a \$504 appraisal cost expense to Phelps annually.

B. Rate Case Expenses

Phelps originally estimated that the expenses associated with this rate case would be \$7,500. Subsequent to the hearing, however, Phelps filed information disclosing that through October 3, 1990 the company has incurred \$21,813 in total rate case expenses related to this case. This breaks down into a total per

customer cost of \$117. The company requested it be allowed to recover these costs over a one year period since the company has to pay for these expenses immediately.

Staff recommended that a reasonable amount be allowed once the actual expenses were known. The company agreed to file its actual costs following the hearing. The Commission has reviewed the rate case expenses filed in this proceeding and has concluded that Phelps has incurred costs in excess of the typical rate case for a company of its size. The Commission does, however, realize that this case addressed some complex issues and, therefore, required more time and expense than the typical rate case.

The Commission has determined that due to the nature and amount of this expense, it would be better to allocate the total rate case expense for all 3 affiliated utilities, \$71,736, on a per customer basis. This results in a \$94 per customer charge for rate case expenses which this Commission feels is unreasonable. To minimize the impact of this cost to the ratepayers, the Commission has amortized rate case expenses over 6 years which is \$15.67 per customer annually. This results in a total rate case expense of \$2,869 per year for Phelps.

Miscellaneous General Expenses

Phelps and Staff reached agreement on all items of expense in this category with the exception of an allowance for contingencies. Phelps requested an increase in this expense of \$921 based on a gas loss that occurred at Phelps in 1989 as a result of a flood. Staff recommended disallowing the proposed

contingency since the company provided no evidence supporting such an incident occurring with any measurable frequency.

The Commission finds that the fact that Phelps experienced a one-time gas loss as a result of a flood is not sufficient basis for including such an allowance in the rates of Phelps. In establishing the level of expenses used to determine revenue requirements, expenses of an unusual and nonrecurring nature are generally excluded in order to project expenses on a normal, ongoing basis. The Commission further finds that any such contingencies will be covered by the reserves generated from the earnings approved in this case.

Rent

Phelps proposed to increase the test-year office and shop rent expense of \$4,200 by 5 percent or \$210 to recognize general inflation. Staff recommended reducing the test-year charge by \$1,464. Staff based this reduction on an allocation of a total rental charge, which was based on the level of rental expense allowed in the most recent rate cases involving the three utilities that share the common office space. The Commission hereby affirms its position taken in those cases that since the rental expense is not based on an arms-length transaction and is subject to scrutiny on the reasonableness of the charges. There was no evidence introduced in this case sufficient to support the company's position that rental costs in the area are increasing. Therefore, the Commission finds the reasonable level of rental expense to be \$2,736. The Commission remains concerned that Phelps is actually incurring rental costs in excess of what was

allowed in the most recent rate case, considering the fact that management has total control over the level of expense incurred. This situation results in losses to the utility which will not be recovered in future proceedings. Phelps should therefore, strive to contain costs to the levels allowed herein.

Interest Expense

Phelps proposed interest expense in the amount of \$6,500 which included interest on a \$25,000 demand note outstanding to the Mike Little Estate. This demand note was incurred to pay for past due gas purchases. Staff determined that interest expense should be \$4,000. This excluded the interest on the \$25,000 demand note because the debt was incurred to pay for past operating costs and current rate payers should not pay for past expenses as this would represent retroactive rate-making. The Commission finds that a reasonable level of interest expense to include for rate-making purposes is \$4,000.

Income Tax Expense

Phelps proposed to include \$32,070 in income tax expense to reflect an average tax rate of 34 percent applied to the company's proposed net operating income. The company felt this would approximate the level of expense this company would incur if it were liable for taxes and, since the shareholders were potentially liable for this expense, the costs should be recovered through rates via a rate-making provision for income tax expense. Staff recommended disallowing this proposed expense since the company itself was not liable for any income tax as it has elected the Sub Chapter "S" form of corporation for tax purposes. The

Commission finds that this expense is not a liability of the utility and should not be recovered in rates.

The earnings of the utility are distributed to the owners in much the same way that dividends are paid to the stockholders of a utility. The stockholders are then liable for any income generated by those dividends. The amount of tax liability to the owners of an "S" corporation depends on the personal circumstances of those individuals. Furthermore, the amount of tax liability the utility would be subject to if it were a regular "C" corporation is incalculable since tax planning would be a part of the utility's philosophy and might drastically change the company's tax liability.

Based upon the above adjustments, Phelps' adjusted operating statement is presented as follows:

	<u>Test Period Actual</u>	<u>Pro Forma Adjustments</u>	<u>Test Period Adjusted</u>
Operating Revenue	\$113,268	<\$7,009>	\$106,259
Operating Expenses	<u>108,189</u>	<u>< 7,716></u>	<u>100,473</u>
Operating Income	5,079	707	5,786
Other Income	0	0	0
Other Deductions	<u>5,021</u>	<u>< 1,021></u>	<u>4,000</u>
Net Income	<u>\$ 58</u>	<u>\$ 1,728</u>	<u>\$ 1,786</u>

Rate of Return

Phelps proposed that its revenue requirements be based on a 16 percent return on the reproduction cost rate base. This return would provide net operating income of \$99,565 which would reflect an 820 percent return on the net original cost rate base found reasonable herein. The Commission has determined that the use of

a reasonable return on the original cost rate base would not provide sufficient revenues to maintain the financial viability of Phelps.

This Commission has, in the past, approved the use of the operating ratio methodology when equity capital and rate base are not well-matched as is the case with Phelps. The Commission, therefore, finds that the operating ratio methodology should be used in this situation. Applying this methodology results in a total revenue increase of \$3,836 for Phelps determined as follows:

Total Operating Expenses	\$100,473
Less - Gas Purchases	59,244
Subtotal	<u>41,229</u>
Divided by Operating Ratio	.88
Subtotal	<u>46,851</u>
Add - Gas Purchases	59,244
Interest Expense	4,000
Total Revenue Requirement	<u>110,095</u>
Staff Normalized Gas Service Revenues	106,259
Total Increase in Revenues	<u>\$ 3,836</u>

Revenue Requirements

Based on the above determination, Phelps will require additional annual revenues of \$3,836 to produce an overall annual revenue requirement of \$110,095.

The gross operating revenue of \$110,095 is based upon operating revenues and cost of gas normalized to Purchase Gas Adjustment ("PGA") Case No. 9911-I.

Rate Design

Phelps proposed a \$15/month service charge per customer to "spread critically needed revenue into lean summer months."

Phelps did not provide a cost of service study in support of this proposed change or any other calculations to support the reasonableness of the charge and change in rate design. The rates authorized herein are adequate to allow Phelps year-around operating funds. The Commission finds that the proposed service charge should be denied. Any future request for changes in rate design should be fully supported by a cost analysis.

Surcharge To Recover Cost of Gas

Phelps proposed a surcharge of 16 cents per Mcf to recover a flood loss in October, 1989 and Purchased Gas cost not covered during the test year due to the lag between its supplier's rate increase and implementation of retail rates adjusted to recover that increase. Phelps states that this situation is created by state statute. Phelps' rates are adjusted pursuant to the terms of its Purchase Gas Adjustment Clause. The loss arises not only in part due to operation of KRS 278.180, but also from Phelps' failure to modify its Purchase Gas Adjustment Clause. Phelps loss due to flood is a non-recurring event and should not be incorporated into its customer's rates on a continuing basis. Further, allowance of this surcharge would constitute retroactive rate making. The Commission finds that the surcharge should be denied.

Other Issues

Phelps made a request at the hearing to accept notice of the hearing that was published 6 days prior to the hearing. Commission regulation 807 KAR 5:001, Section 8(5), provides that notice of hearings are given by newspaper publication no more than

21 nor less than 7 days prior to the hearing. At the hearing, counsel for Phelps introduced affidavits of newspaper publication in the areas served by Phelps including publication in the Sunday edition of a newspaper of statewide circulation said publication made 6 days prior to the hearing. After consideration of the request and being otherwise sufficiently advised, the Commission finds that Phelps has substantially complied with the Commission's notice requirements and the request to accept the notice that was published 6 days prior to the hearing is granted.

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by Phelps be and they hereby are denied.

2. The proposed settlement agreement between Staff and Phelps be and hereby is accepted. The proposed settlement is incorporated herein.

3. Phelps' motion to accept the publication of its notice of the hearing 6 days prior to the hearing is hereby granted.

4. The rates in Appendix B be and they hereby are fair, just and reasonable rates to be charged by Phelps for service rendered on and after the date of this Order.

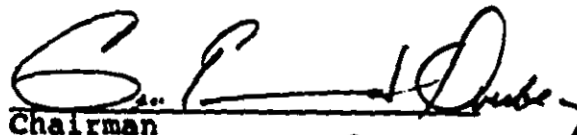
5. Within 30 days from the date of this Order, Phelps shall file with this Commission its revised tariff sheets setting out the rates approved herein.

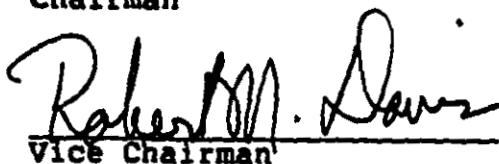
6. Within 30 days of the date of this Order, Phelps shall file the amount of excess revenues collected, along with a refund plan. The refund plan shall include interest at a rate equal to the average of the "3-Month Commercial Paper Rate." These rates

are reported in the Federal Reserve Bulletin and the Federal Reserve Statistical Release.

Done at Frankfort, Kentucky, this 7th day of December, 1990.

PUBLIC SERVICE COMMISSION


Chairman

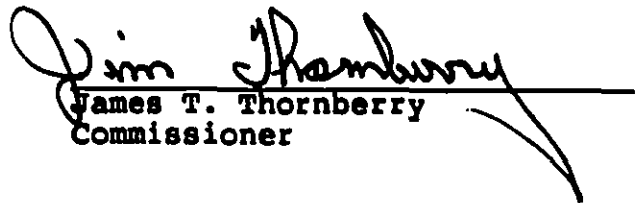

Vice Chairman

ATTEST:


Executive Director

Dissenting Opinion of Commissioner James T. Thornberry

I respectfully dissent. I think it unreasonable to allow a provision for income taxes to "C" corporations but not allow the same provision for Subchapter "S" corporations, sole proprietorships, and partnerships. I do, however, concur with the remainder of this Order.


James T. Thornberry
Commissioner

ATTEST:


Executive Director

APPENDIX A
COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF THE ELZIE NEELEY GAS COMPANY, INC.)	CASE NO. 90-076
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AN ADJUSTMENT OF RATES OF THE MIKE LITTLE GAS COMPANY, INC.)	CASE NO. 90-077
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AN ADJUSTMENT OF RATES OF THE PHELPS GAS COMPANY, INC.)	CASE NO. 90-078
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SETTLEMENT AGREEMENT

WHEREAS, Mike Little Gas Company, Inc. ("Mike Little"), Elzie Neeley Gas Company, Inc. ("Elzie Neeley"), and Phelps Gas Company, Inc. ("Phelps") each filed applications with the Public Service Commission ("Commission") on March 30, 1990 seeking approval of proposed increases in rates to produce annual increased revenues of \$231,564, \$40,976, and \$106,052, respectively, and

WHEREAS, on July 31, 1990, Commission Staff issued its report on each of the three utilities setting forth its recommendations regarding the revenue and expense adjustments proposed by each and further setting forth recommendations pertaining to rate design, and

WHEREAS, each utility, by and through counsel, submitted responses to staff recommendations. Said responses being filed into the record on August 15, 1990, and

WHEREAS, Commission Staff and counsel for each of the three utilities met to discuss a potential settlement proposal and have reached agreement on certain issues in these three cases.

NOW, THEREFORE, be it resolved that:

1. All signatories agree to the following levels of expenses are reasonable and acceptable for rate-making purposes in the following expense accounts and in the following amounts:

a. Uncollectible Accounts Expense:

Mike Little	\$2,318
Phelps	456
Elzie Neeley	343

b. Supplies and Expenses:

Mike Little	\$3,458
Phelps	1,068
Elzie Neeley	351

c. Office Supplies Expenses:

Mike Little	\$2,653
Phelps	889
Elzie Neeley	485

d. Outside Services Expenses:

Engineering -

Mike Little	\$132
Phelps	48
Elzie Neeley	20

Legal and Accounting Fees -

Mike Little	\$8,645
Phelps	4,146
Elzie Neeley	2,006

The above stated outside services expense levels do not include a reasonable amount for rate case expenses to be provided by each of the utilities at the conclusion of the hearing on each case.

e. Injuries and Damages Expense:

Mike Little	\$2,396
Phelps	228
Elzie Neeley	746

f. Property Insurance Expense:

Mike Little	\$7,496
Phelps	2,010
Elzie Neeley	746

g. Employee Pensions and Benefits:

Mike Little	\$3,483
Phelps	932
Elzie Neeley	491

h. General Advertising Expense:

Mike Little	\$0
Phelps	0
Elzie Neeley	0

This account does not include advertising for rate increase and public hearing notice related to these cases.

i. Amortization Expense:

Mike Little	\$689
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There were no amortization expense adjustments for Phelps and Elzie Neeley.

j. Depreciation Expense:

Mike Little	\$9,832
Phelps	1,556
Elzie Neeley	1,672

k. Miscellaneous General Expense - No agreement has been reached as to Contingency amounts, however, Dues and Freight are agreed to at the following levels:

Mike Little	\$186
Phelps	68
Elzie Neeley	28

l. Taxes Other Than Income Taxes:

Mike Little	\$7,363
Phelps	2,148
Elzie Neeley	971

m. Other Interest Expense:

Mike Little	\$4,417
Elzie Neeley	530

No agreement was reached on the appropriate expense level for Phelps.

n. Maintenance of General Plant - no adjustments were proposed for Phelps and Elzie Neeley. Parties agree the balance in this account should be \$0 for Mike Little.

o. Notice Period Losses on the Purchased Gas Adjustment Clause. Proposal was made to include \$10,000 as projected notice period loss for Mike Little and \$676 as projected notice period loss for Phelps. The parties agree that \$0 should be recorded for these projected losses. No agreement was reached on treatment for the actual test year recorded losses for Mike Little.

p. Fines and Penalties. No proposal has been made for Mike Little or Elzie Neeley. The agreed to amount for Phelps is \$0.

q. Customer Accounts Expenses:

Meter reading labor - \$8,640 Phelps. No adjustments were proposed for Mike Little or Elzie Neeley;

Accounting and Collecting Labor - \$2,640 Phelps. No adjustments were proposed for Mike Little or Elzie Neeley.

r. Transportation Expense:

Mike Little	\$4,156
Phelps	2,461
Elzie Neeley	626

s. Distribution Expense:

Mike Little	\$2,043
Phelps	110
Elzie Neeley	90

No agreement has been reached as to contract labor costs.

2. All signatories hereto waive all cross-examination of the witnesses of the other parties hereto on the issues specified herein, unless the Commission disapproves this Settlement

Agreement, and further stipulates and recommends that the Applications, Staff Reports, and utilities' responses to Staff Reports filed in the proceedings be admitted into the record.

3. This Settlement Agreement is submitted for purposes of these cases only and is not deemed binding upon the signatories hereto in any other proceedings, nor is it to be offered or relied upon in any other proceeding involving Mike Little, Phelps, Elzie Neeley or any other utility. Nothing in this Settlement Agreement is intended or should be construed to inhibit any signatory from taking any position it deems necessary regarding the propriety or impropriety of utilizing projected revenue and expense data for rate-making purposes in future proceedings before the Commission.

4. If the Commission issues an order adopting this Settlement Agreement in its entirety, each of the signatories hereto agrees that it shall file neither an application for rehearing on the issues specifically addressed herein nor an appeal to the Franklin Circuit Court from such order with respect to the issues addressed herein.

5. If this Settlement Agreement is not adopted in its entirety, each signatory reserves the right to withdraw from it and require that hearings go forward upon all or any matters involved herein, and that in such event the terms of this agreement shall not be deemed binding upon the signatories hereto, nor shall such agreement be admitted into evidence or referred to or relied on in any manner by any signatory hereto, the Commission or its staff in any such hearing.

6. All other issues not specifically addressed herein are reserved for the hearing in these proceedings.

7. It is understood by the signatories that this agreement is not binding upon the Commission.

8. The foregoing agreement is reasonable, in the best interest of all concerned and should be adopted by the Commission in its entirety.

AGREED TO BY:

Brenda Gould

Hon. Brenda Gould, Attorney for
Elzie Neeley Gas Company, Inc.
Mike Little Gas Company, Inc.
Phelps Gas Company

10/2/90
Date

Janet Smith Holbrook

Hon. Janet Smith Holbrook, Attorney
for Elzie Neeley Gas Company, Inc.
Mike Little Gas Company, Inc.
Phelps Gas Company

October 2, 1990
Date

Rebecca Woodside Goodman

Hon. Rebecca Woodside Goodman
Attorney for Commission Staff

October 2, 1990
Date

APPENDIX B

**APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 90-078 DATED 12/07/90**

The following rates and charges are prescribed for the customers served by Phelps. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

RATES: Monthly

First Mcf

\$7.7000 Per Mcf

All Over 1 Mcf

6.0699 Per Mcf